

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 EURE-00 SP-02 USIA-15 AID-05
EB-08 NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /109 W
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P R 011657Z MAR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC PRIORITY 6057
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USMISSION USBERLIN
USMISSION NATO BRUSSELS
USNMR SHAPE
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

UNCLAS BONN 03713

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: CHANCELLOR SCHMIDT STATES TO PRESS HE
WILL RESIST PRESSURES TO REFLATE
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1. THE FEBRUARY 26/27 EDITION OF THE MUNICH INDEPENDENT
DAILY, SUEDEUTSCHE ZEITUNG, CARRIED AN EXCLUSIVE INTER-
VIEW WITH CHANCELLOR SCHMIDT WHICH TOUCHED ON THE ISSUE
OF ECONOMIC EXPANSION IN THE FRG. A FREE TRANSLATION
FOLLOWS:
QUESTION: HOW WOULD YOU REACT TO ANTICIPATED ANGLO-

SAXON DEMANDS DURING THE MAY ECONOMIC SUMMIT FOR A LARGER GERMAN STIMULATION PROGRAM AND INCREASED DEFICIT SPENDING?

CHANCELLOR SCHMIDT'S RESPONSE: WE HAVE REPEATEDLY HAD SUCH RECOMMENDATIONS FROM ALLIED GOVERNMENTS IN RECENT YEARS. THERE ARE THREE REMARKS TO BE MADE IN THIS CONTEXT:

(1) IN ORDER TO STIMULATE ECONOMIC ACTIVITY WE HAVE INDEED PURPOSELY BROUGHT ABOUT BUDGETARY DEFICITS THROUGH TAX RELIEF, CONJUNCTURAL AND LABOR MARKET PROGRAMS AND THE FORTHCOMING FUTURE-ORIENTED INVESTMENT PROGRAM. THE DEFICITS OF THE MUNICIPALITIES, THE STATES, THE FEDERAL GOVERNMENT AND ALL (OTHER) PUBLIC AGENCIES TOGETHER IN 1977 WILL BE ALMOST TWICE AS HIGH AS IN THE U.S.A. THIS IS ONE OF THE PARTIAL ANSWERS WHICH WAS GIVEN TO OUR AMERICAN FRIENDS.

(2) AT THE SAME TIME, WE SAW TO IT VERY MUCH THAT THE PRICE INCREASE WAS DAMPENED. IN GAUGING PUBLIC SECTOR DEFICITS AND THE MONEY SUPPLY WE HAVE PROCEEDED CAREFULLY AND STEADILY. WE HAVE ACHIEVED FOR THE FRG A MANY YEARS' LONG RECORD OF THE LOWEST PRICE INCREASES IN THE ENTIRE INDUSTRIALIZED WORLD (EXCLUDING SWITZERLAND).

THOSE COUNTRIES, WHICH HAVE GONE THE WAY OF HIGH INFLATION RATES, HAVE ERRED REGARDING THE IMPACT OF THEIR POLICIES OVER THE MEDIUM-TERM. THEY HAVE PARTIALLY UNCLASSIFIED

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LOST THEIR INTERNATIONAL COMPETITIVENESS. THE HOPES OF THEIR PEOPLE REGARDING THE ECONOMIC FUTURE HAVE NOT BEEN FULFILLED. THESE COUNTRIES SHOW CLEARLY HIGHER UNEMPLOYMENT RATES THAN DOES THE FRG. I WANT TO RESIST SUCH A POLICY IN ANY CASE, EVEN WHEN IT IS BEING RECOMMENDED TO US SO EMPHATICALLY BY FRIENDS.

(3) BY OUR POLICIES OF GROWTH AND STABILITY WE HAVE CREATED DEMAND FOR IMPORTS WHICH BENEFITTED EXPORTS AND, CONSEQUENTLY, EMPLOYMENT IN ALLIED COUNTRIES. DURING THE PAST TWO YEARS, OUR IMPORTS GREW MORE THAN EXPORTS. THIS WILL ALSO BE THE CASE IN 1977. SOME OF OUR FOREIGN CRITICS GLADLY OVERLOOK THIS -- EVEN INTENTIONALLY IN PART. WE SHALL MAINTAIN OUR READINESS TO HELP ALSO IN THE FUTURE -- FOR REASONS OF SOLIDARITY AS WELL AS IN OUR OWN INTEREST. CASH

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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